

# 11th Annual Report 2006-2007



## BOARD OF DIRECTORS

Dr. K.C. Chakrabarty, Chairman  
Sh. K. Raghuraman  
Dr. O.P. Chawla  
Dr. Kamal Gupta  
Sh. S.K. Soni  
Sh. R.S. Lodha  
Sh. A.S. Agarwal  
Sh. D.K. Singla  
Sh. Arun Kaul  
Sh. A.K. Gupta, Managing Director

## STATUTORY AUDITORS

Bansal R. Kumar & Associates  
Chartered Accountants  
G-7&8, Namdhari Chambers,  
9/54, D B Gupta Road, Karol Bagh,  
New Delhi - 110 005

## INTERNAL AUDITORS

KPMG  
4B, DLF Corporate Park, DLF City,  
Phase III, Gurgaon - 122002

## BANKERS

Reserve Bank of India  
Punjab National Bank

## REGISTERED-CUM-CORPORATE OFFICE

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Tel: 011-2332 5759/2332 5779  
Fax: 011-23325751, 23325763  
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Website : www.pnbgilts.com

## BRANCHES

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Fax: 044-28591751

6A, Clive Row, Kolkatta - 700 001.  
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Ashram Road, Ahmedabad - 380 014.  
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Fax: 079-27541808

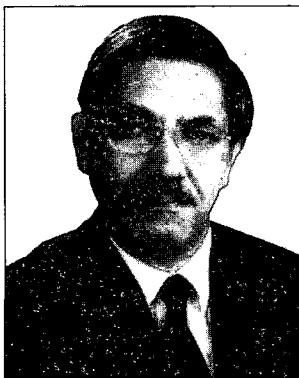
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## LETTER TO SHAREHOLDERS

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**Dear Shareholders,**

It gives me great pleasure to inform that I have joined Punjab National Bank as Chairman & Managing Director on June 4, 2007 and consequently as Chairman of your company. I would like to share some of my thoughts on your company's performance.

Primary Dealers (PDs) have been in existence for over a decade now. During this period, the Indian G-Sec market witnessed significant transformation with a growth in investor base, introduction of new instruments, improved trading & settlement infrastructure and your company constantly reoriented itself to remain at the forefront of the PD business. I would like to take this opportunity to thank you for the confidence reposed in the company.

During the year 2006-07, in a volatile interest rate environment, your company posted a Profit After Tax of Rs 15.96 crore. There was considerable volatility in yield movement during the year with benchmark 10-yr yield ending the year 42 bps higher at 7.94% after touching an intra-year high of 8.43% in July '06. To stem the blistering credit growth and the inflationary pressures in the economy, the Central Bank maintained a monetary tightening bias. The Central Bank hiked Reverse Repo rate, Repo rate and Cash Reserve Ratio by 50 bps, 125 bps and 100 bps respectively. Domestic liquidity conditions also remained extremely volatile. In this high inflation and monetary tightening environment, market sentiments were largely bearish and trading volumes were also low.

Despite a firm interest rate environment, your company fulfilled all Central Bank commitments and continued to generate profits. The company's performance against the backdrop of volatile and firming interest rates indicates appropriate trading and risk management skills. The defensive portfolio composition held the company in good stead in a firm interest rate environment. Increased emphasis was also laid on fee-based activities. The company has initiated operations in the new activities permitted by the Central Bank and strengthened its operations in existing fee-based activities including project appraisal, loan syndication and mutual fund distribution.

The phase of rising interest rates has been continuing for the past three years. This period has been very tough for participants in the gilt market. Looking ahead, slowing credit growth and reducing inflationary pressures reflect that Central Bank's monetary tightening measures have had the desired impact. While global monetary tightening, worries over ample liquidity and firm crude prices remain, the company is confident of navigating through this macro environment successfully. With increased focus on fee based activities and constant churning of the portfolio to suit the interest rate environment, I am confident that your company would live up to the expectations of its stakeholders. Your continued support will help the company scale new heights.

With regards,  
Yours sincerely,

**(K. C. Chakrabarty)**  
Chairman

## DIRECTORS' REPORT

Your Directors have pleasure in presenting the Eleventh Annual Report together with the audited accounts of the company for the year ended March 31, 2007.

### 1. FINANCIAL RESULTS

The financial results for the year ended March 31, 2007 along with comparative figures for the previous year, are given below:

	(Rs. in lacs)	
	2006-07	2005-06
Total Income	12613.61	12705.95
Total Expenditure	10975.31	9854.30
Profit/(loss) before tax	1638.30	2851.65
Less : Provision for Income Tax (including deferred tax)	41.97	(112.41)
Profit/(loss) after Tax	1596.33	2964.06
Add: Balance in Profit & Loss Account brought forward	1158.81	221.02
Amount available for Appropriation	2755.14	3185.08
<b>Proposed Appropriations</b>		
Transfer to Statutory Reserve	320.00	794.73
Dividend	0.00	1080.06
Corporate Dividend tax	0.00	151.48
Balance carried forward	2435.14	1158.81

During the financial year 2006-07, interest rates went up and exhibited high volatility. This was caused by factors like, RBI hiking the reverse repo rate by 50bps, repo rate by 125bps, CRR by 100bps, rise in US treasury prices, soft crude oil prices and tight liquidity conditions. As a result, the yield on 10 year benchmark Government Security increased from 7.52% as on March 31, 2006 to 7.94% as on March 31, 2007. Despite upward pressure on interest rates, the company made a profit before tax of Rs.1638.30 lacs during the year ended March 31, 2007 due to prudent funds management and reorientation of trading strategies.

### 2. CAPITAL ADEQUACY

Capital adequacy ratio as on March 31, 2007 stood at 34.36 per cent as against RBI stipulation of minimum 15 per cent.

### 3. DIVIDEND

Pursuant to RBI guidelines for Primary Dealers restricting the dividend payout ratio only upto 50% of the profits of the current year, the Board has not recommended any dividend for the financial year 2006-07.

### 4. OTHER MATTERS

#### 4.1 Directors

During the year, the Board of Directors met eight times to review strategic, operational, technological and financial matters besides laying down policies and procedures for operational management of the company against the required minimum of 4 meetings in a year. The Audit Committee of the Board met four times; the Share Transfer Committee met twenty five times and Shareholders' / Investor Grievance Committee met twelve times.

#### Changes since last Annual General Meeting

The following changes took place in the Board of Directors of the company since the date of last Annual General Meeting:



- **Sh. A.S. Agarwal** has been inducted as an Additional Director on the Board of the company in October, 2006. He is a Law Graduate with a special Diploma in Taxation. He was earlier a Director of Punjab National Bank. He is Editor-in-Chief and Managing Director of "Tarun Bharat" and Chief Editor, Publisher & Director of "Rashtriya Swarup" - famous Hindi dailies published from Lucknow through Swarup Publications (P) Ltd. He is also member of Executive Body of Agarwal College, Lucknow.
- **Sh. D.K. Singla** has been inducted as an Additional Director on the Board of the company in March, 2007. He is a practicing Chartered Accountant and has an experience of over 17 years. He has undertaken a number of audits of Banks, Govt. Companies, PSUs and MNCs. He was a member of Chandigarh Committee of PHD Chamber of Commerce for a span of 4 years. He has also rendered his services to Institute of Chartered Accountants of India as a member of the Managing Committee of its Chandigarh Branch and as a Convener of Task Force for the State of Punjab & Chandigarh. He is a member of Audit Committee of "Institute of Auto Parts Technology" and "Research and Development Center for Bicycle & Sewing Machine" (UNDP/UNIDO assisted Punjab Government Projects)
- **Sh. S.K. Munjal** had expressed his inability to continue as director on the Board of the company due to his other preoccupations and **tendered his resignation** from the directorship of the company and the same was accepted by the Board in March, 2007.

#### **Retirement of Directors by Rotation**

As per Article 99 of the Articles of Association of the company Dr. O.P.Chawla, Sh. R.S.Lodha and Sh. Arun Kaul retire by rotation in the forthcoming Annual General Meeting and are eligible for reappointment.

#### **Corporate Governance**

Corporate Governance for the company means achieving high level of accountability, efficiency, responsibility and fairness in all areas of operations. Our workforce is committed towards the protection of the interest of the stakeholders including shareholders, creditors, investors, customers, employees etc. Our policies consistently undergo improvements keeping in mind our goal of maximization of value of all the stakeholders. The Corporate Governance practices followed by the company are given in the Annual Report. A certificate from M/s Bansal R. Kumar and Associates, Statutory Auditors of the company regarding compliance of conditions of corporate governance stipulated by stock exchanges is enclosed with the report of corporate governance.

#### **4.2 Directors' Responsibility Statement**

Pursuant to Section 217(2AA) of the Companies (Amendment) Act, 2000, the Directors confirm that in the preparation of the annual accounts:

- The applicable accounting standards have been followed.
- Appropriate accounting policies have been selected and applied consistently, judgements and estimates made are reasonable and prudent so as to give true and fair view of the state of affairs of the company at the end of the financial year ended March 31, 2007 and the profit and loss account for the year ended March 31, 2007.
- Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
- The annual accounts have been prepared on a going concern basis.

#### **4.3 Audit, Internal Control Systems & their adequacy**

M/s Bansal R. Kumar and Associates, Chartered Accountants, Delhi were appointed as the Statutory Auditors of the company by the Comptroller & Auditor General of India for the financial year ended 31<sup>st</sup> March 2007. The report of the auditors is self-explanatory.

## DIRECTORS' REPORT Contd...

The company considers Internal Audit to be a very significant part of its corporate governance practices. For the year 2006-07, the Board appointed M/s KPMG as the internal auditors of the company. The scope of Internal Audit included audit of treasury transactions on a monthly basis and reporting to the Audit Committee of the Board that the company has operated within the limits of various risk parameters laid down by the Board, Reserve Bank of India and other statutory authorities. Besides, they also audited and reviewed key business processes of the company on quarterly basis. All the reports of the Internal Auditors were submitted to the Audit Committee and the monthly audit reports were submitted to Reserve Bank of India as well.

### 4.4 Human Resources

Total number of employees of the company as on March 31, 2007 was 37. The company has maintained peaceful and harmonious relations with its employees.

The information required under Section 217 of the Companies Act, 1956 read with the Companies (Particulars of Employees)(Amendment) Rules, 2002 be treated as NIL as none of the employees of the company draws remuneration in excess of Rs. 2,00,000 /- p.m. No employee is related to any director of the company.

### 4.5 Particulars required to be furnished by the Companies (Disclosure of particulars in the report of the Board of Directors) Rules, 1988.

a) Part A pertaining to the conservation of energy are not applicable to the company.

With regard to Part B pertaining to technology absorption, the company has installed the integrated treasury management software and RBI's Negotiated Dealing System with the help of IDRBT and reputed IT companies. The company recognizes the growing importance of Information Technology in the emerging business environment. The company has also implemented Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) with the help of IDRBT (consultants for implementation of BCP and DRP) to identify and reduce risk exposures and proactively manage any contingencies.

b) Foreign Exchange earnings and outgoing :

The company has neither used nor earned any foreign exchange during the year under review.

### 4.6 Public Deposits

During the year ended March 31, 2007, your company has not accepted any deposits from the public within the meaning of the provisions of the Non- Banking Financial Companies (Reserve Bank) Directions, 1977 and circular dated January 31, 1998.

### 4.7 Acknowledgement

Your Directors thank Government of India, Reserve Bank of India, Punjab National Bank, Commercial, Cooperative & Regional Rural banks, Financial Institutions, PF Trusts, Public Sector Undertakings, Private Sector Corporate Bodies and other valued clients for their whole-hearted support. We acknowledge the sincere and dedicated efforts put in by employees of the company at all levels.

On behalf of Board of Directors

Date : May 25, 2007

Place : New Delhi

(S.C. Gupta)  
Chairman



## MANAGEMENT DISCUSSION AND ANALYSIS

### MACROECONOMIC REVIEW

During 2006-07, the Indian economy exhibited remarkable growth for the fourth year in succession. Real GDP growth rate accelerated further to reach 9.2% as compared to 9.0% in 2005-06. This high growth was stimulated by double-digit growth in manufacturing and services sectors. The agricultural sector lagged behind the other two sectors and grew by a meager 2.7% in 2006-07 vis-à-vis 6.0% in 2005-06. The industrial sector improved further on its previous year's performance and grew at 10.2% as against 8.0% in 2005-06. The key driver of the industrial growth continued to be the manufacturing

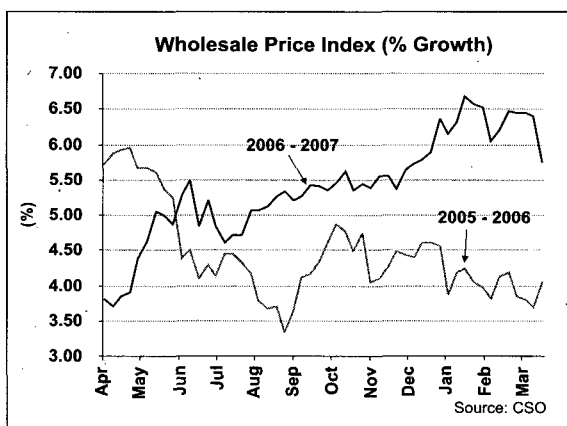
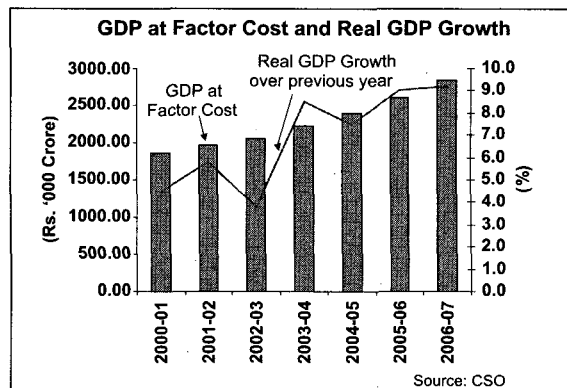
sector that is estimated to have grown at a blistering pace of 11.3%. The services sector continued to be the key driver to economic activity, achieving a growth rate of 11.0%, higher than previous year's growth of 10.3%. Propelled by better performance of crude petroleum, petroleum refineries and electricity, the infrastructure sector recorded an improved growth rate of 8.3% during the last financial year.

Riding on strong growth in profitability levels, the corporate savings rate increased further to achieve a growth rate of 100% in the span of last 3 years. Corporate savings supported by an increase in household savings rate, led to a 1.3% rise in the Gross Domestic Savings (GDS) as a percentage of India's GDP. For the year 2005-06, GDS stood at 32.4% of GDP. Overall investment rate also increased by 2.3 percentage points of GDP to 33.8% primarily due to increased current account deficit. The net capital inflow is estimated to be 1.3% of GDP for the year 2005-06.

With regard to Government's finances, there was considerable improvement in the fiscal situation and deficit figures were lower than their budgeted levels. Buoyant revenue receipts (an increase of 4.9% over budgeted levels) more than offset increased expenditures on account of higher interest payments, fertilizer & interest subsidies and non-defence capital outlay. The gross fiscal deficit (GFD), revenue deficit (RD), gross primary deficit were Rs. 1,52,328 crore, Rs. 83,436 crore and Rs. 6,136 crore respectively for 2006-07. GFD and RD figures at 3.7% and 2.0% of GDP were 0.4 and 0.6 percentage points lower than their budgeted levels.

The Gross Market Borrowings of Rs. 1,79,373 crore (net Rs. 1,11,270 crore) in 2006 - 07 were higher than previous year's level of Rs. 1,58,000 crore (net Rs. 95,370 crore). Of the total market borrowings, Rs. 1,46,000 crore (net Rs. 1,06,916 crore) was borrowed through dated securities issuances and Rs. 33,373 crore (net Rs. 4,354 crore) was borrowed through 364-day Treasury bills issuances. The net market borrowings financed 73.0% of the GFD.

Domestic inflationary pressures mounted during 2006 - 07 and rose well above central bank's targeted y-o-y inflation rate of 5.0-5.5%. High inflation in 2006-07 was driven by high primary food articles and manufactured products prices, reflecting the impact of both supply side and demand side pressures. Wholesale price index - based inflation increased to 5.7% y-o-y, as on March 31, 2007 from 4.0% a year ago. The average WPI inflation rate during 2006-07 at 5.4% was higher than that of 4.4% a year ago. The y-o-y inflation, excluding the fuel group, at 7.1% was above the headline inflation rate of 5.7% as on March 31, 2007. Primary articles inflation at 10.7% during 2006-07 was the highest in the past decade. Fuel group inflation moderated to 1.0% on March 31, 2007 from 8.3% a year ago, reflecting the base effect as well as cuts in prices of petrol, diesel and other fuel products. Manufactured products inflation increased to 5.8% as on March 31, 2007 from 1.9% a year ago. A number of fiscal and monetary measures in the form of duty cuts and rate hikes were taken during the year to contain the price rise.



## MANAGEMENT DISCUSSION AND ANALYSIS Contd...

International crude oil prices were extremely volatile during 2006-07. Prices initially firmed up to reach a record high of USD 78.4 a barrel on July 14, 2006 as US standoff against Iran's nuclear programme and unrest in Nigeria raised supply concerns. Subsequently, prices eased to below USD 60 a barrel during Oct-Nov 2006 on the back of signs of US economy slowdown, increased US crude inventories and easing of tensions over Iran's nuclear programme. Prices edged up to around USD 62-63 a barrel in Dec '06 on the back of production cuts by the Organisation of Petroleum Exporting Countries (OPEC). However, prices eased further to USD 51 a barrel in Jan '07 mainly on account of mild winter in the US and an increase in US crude stocks. Prices rebounded in the last week of Jan '07 and reached USD 60 a barrel in Feb '07 on the back of renewed winter demand and the second OPEC production cut. Prices rose further to around USD 67 a barrel in late March '07 on tensions over Iran's detention of British naval personnel.

Central bank maintained a tight monetary stance during the year and hiked key interest rates at regular intervals. Repo rate was hiked from 6.50% to 7.75% during the year while reverse repo rate was increased by 50 bps from 5.50% to 6.00%. In 2006-07, the central bank hiked the Cash Reserve Ratio from 5% to 6% in phases of 25 bps each during the last 4 months of the financial year. A further increase of 50 bps announced on the last day of the financial year and effected in 2007-08 has taken CRR to 6.5%. CRR hikes were resorted to siphon off the excess liquidity infused into the market due to increased capital inflows. Money supply grew at a higher-than-targeted rate of 20.8% as against previous year's 17.0% growth.

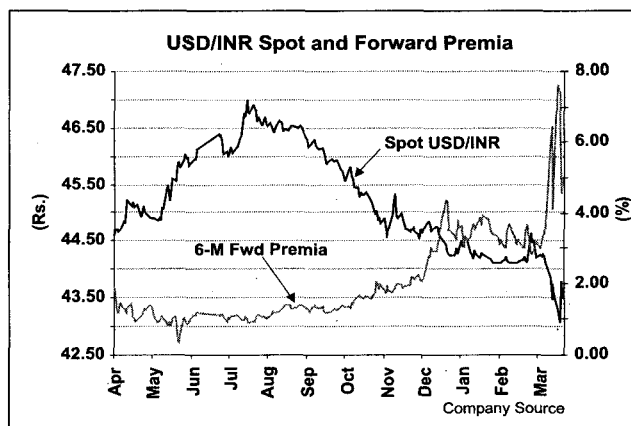
During 2006-07, growth in India's exports declined to 20.9% from previous year's level of 24.7%. Growth in imports outstripped exports growth and grew at 26.5%, lower than previous year's growth rate of 31.5%. Consequent to a slowdown in exports growth, India's trade deficit rose by 40.5% during the year to USD 56.7 billion at end-March 2007.

India's external debt increased by USD 28.6 billion from end-March 2006 to USD 155.0 billion at end-March 2007. The increase during the period was mainly on account of higher external commercial borrowings and NRI deposits. The ratio of short-term to total debt increased from 6.9% at end March '06 to 7.7% at end March '07.

India's foreign exchange reserves were USD 199.2 billion as on March 31, 2007 rising by USD 47.6 billion over March 31, 2006. The increase in forex reserves was mainly on account of an increase in foreign currency assets from USD 145.1 billion at end-March 2006 to USD 191.9 billion as at end-March 2007.

### Forex Market

The exchange rate exhibited a two-way movement in 2006-07. The Indian rupee moved in the range of Rs. 43.14 - 46.97 per US dollar. In July '06, high crude oil prices, FII outflows and geo-political tensions in the Middle East led to rupee depreciation and rupee fell to Rs. 46.97 against USD. However, moderation of crude prices, FII inflows and global weakness of USD in international markets led to rupee's revival. Increased supply of dollars led to further appreciation and rupee ended the fiscal at Rs. 43.60, 2.3% higher than previous year's level of Rs. 44.61. Against other major currencies, while rupee depreciated by 9.1% against Pound sterling and by 6.8% against Euro, it appreciated by 2.7% against Japanese Yen. Forward premia firmed up during the year reflecting growing interest rate differential due to higher domestic interest rates. The 1-month and 6-month forward premia rose to 6.99% and 3.80% in March '07 vis-à-vis March '06 levels of 3.79% and 2.43% respectively.



### Money Market

Money market rates firmed up during 2006-07 on the back of sustained monetary tightening measures of the central bank. Quarterly advance tax outflows and policy tightening measures led to volatility in rates. For most days during the first half of the financial year, call rates hovered close to the reverse



repo rate and within the interest rate corridor. However, in mid-September '06, money market rates firmed up due to advance tax outflows and festive season demand. Rates eased later on account of reduction in Centre's surplus cash balances with the central bank and FII inflows. The combined effect of an announcement of a 50 bps CRR hike and advance tax out flows led to a surge in money market rates. Weighted average call rates touched 16.88% in Dec'06, well above the then repo rate of 7.25%. Call rates eased despite a repo rate hike on January 31, 2007 due to forex induced liquidity. Announcement of 50 bps CRR hike to 6.00% in February '07 led to some further firming up, but rates quickly eased to around 6.10% by end-February 2007. Modified arrangements of liquidity management were put in

place from March 5, 2007 under which a flexible arrangement of MSS auctions of dated securities was introduced along with a ceiling of Rs. 3,000 crore under the LAF reverse repo. Money market rates hardened in the second half of March '07 as liquidity conditions tightened due to advance tax outflows, sustained credit demand and asymmetric distribution of Government securities holdings across the banks. Call rates averaged 21.99% during the second half of March '07 and closed at 54.3% on March 30, 2007.

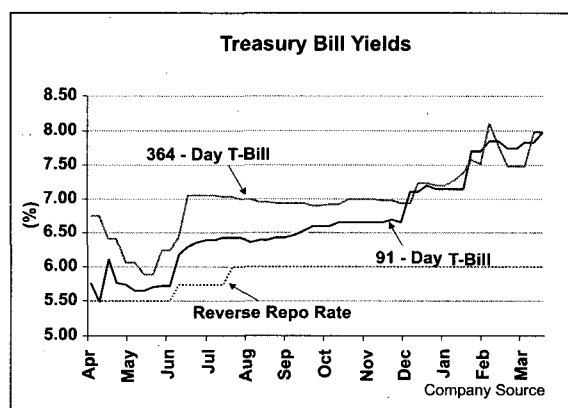
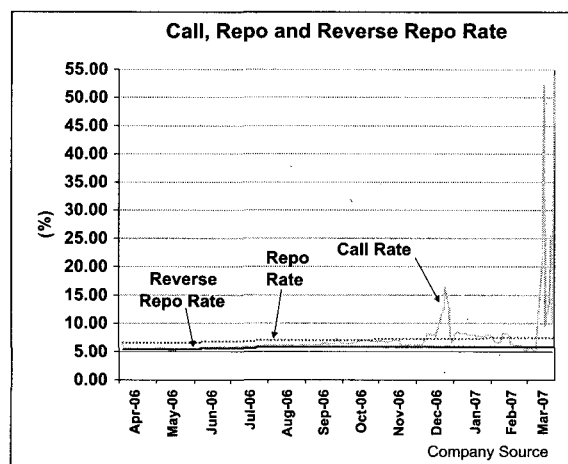
Even in the collateralised segment of the money market (market repo and CBLO), interest rates firmed up in line with the call rate, and remained below the call rate during 2006-07. These rates were relatively stable vis-à-vis call rates. In 2006-07, interest rates averaged 6.24% and 6.34% in CBLO and market repo segments respectively as compared to 7.22% in the call money market. The collateralised market accounted for about 70% of total volumes during 2006-07.

### Treasury Bill Market

Yields firmed up in Treasury bill (T-bill) auctions during 2006-07. In Q1 2006-07, T-bill yields firmed up due to inflationary concerns, interest rate hikes in domestic and international markets and larger issuances on account of reintroduction of the Market Stabilisation Scheme (MSS). After remaining broadly unchanged during July-November '06, T-bill yields increased from Dec '06 on the back of 100 bps CRR hike and 25 bps repo rate hike. The yield spread between 364-day and 91-day T-bills was 22 bps in March '07, marginally higher than previous year's level of 15 bps. Due to tight liquidity conditions, at some auctions during the financial year 2006-07, the notified amount under MSS was not fully subscribed to. Under tight liquidity conditions, cut off yields in the last auctions during the financial year 2006-07, were 7.98% in both 91-day and 364-day T-bill auctions and 8.20% in 182-day T-bill auction.

### Government Dated Securities

In the Government securities market, several initiatives were taken to broaden base, strengthen and diversify the activities of Primary Dealers. Banks, both Indian and foreign, fulfilling certain eligibility criteria, were permitted to undertake Primary Dealer (PD) business departmentally. With the Reserve Bank precluded from participating in primary G-Sec auctions from April 1, 2006, the system of bidding commitment was revamped with a system of underwriting commitment for PDs. At the same time, with a view to allowing stand alone PDs to generate alternate streams of income, they were allowed to diversify their activities.



## MANAGEMENT DISCUSSION AND ANALYSIS Contd...

To create and enhance market liquidity even during the phases of falling prices, select participants were permitted to short sell securities in G-sec market. The short sales were initially permitted (February 28, 2006) on an intra-day basis where the participants could short during the day but were required to cover it by the end of the day. After assessing the market feedback and after consultations with the participants, the short sales were extended to five-day period thereby permitting participants to carry forward their short positions beyond the settlement cycles. To enable delivery against the short positions, the sale of repoed stock has also been permitted. With the participants gradually putting in place internal systems to undertake short sales with the approval of the respective Boards, it is expected that the liquidity in markets would increase.

The primary issuance framework required revamping in the light of RBI's withdrawal from the primary issuances of Central Government effective April 1, 2006. Along with the restructuring of the underwriting commitments of PDs to ensure 100% underwriting and permitting PDs to diversify their businesses, 'When Issued' (WI) trading has been introduced to enable better distribution of auctioned stock and also more efficient price discovery. 'WI' trading was initially permitted in reissued securities (May 2006) and the same has subsequently been extended to newly issued securities (Nov 2006), which would be operationalised after the necessary software modifications which is at an advanced stage.

During 2006-07, the Central Government's gross market borrowings were Rs. 1,79,373 crore as against the budgeted amount of Rs. 1,79,716 crore and net borrowings were Rs. 1,11,270 crore vis-à-vis the budgeted amount of Rs. 1,13,778 crore. The Government raised Rs. 1,46,000 crore through the issuance of dated securities (excluding issuances under Market Stabilization Scheme) against previous year's level of Rs. 1,31,000 crore. Of the 33 auctions held during the year, 30 auctions were reissues of securities and 3 new securities of 10-year, 15-year and 30-year tenors were issued. During the year, various State Governments raised Rs. 20,825 crore, 78.3% of the gross allocation of Rs. 26,597 crore. The weighted average interest rate of the state loans hardened to 8.10% during 2006-07 from 7.63% in 2005-06.

Yields in the Government securities market hardened during 2006-07. The weighted average yield on the primary issuances of G-Secs rose by 55 bps to 7.89% in 2006-07 from 7.34% in the previous year. The weighted average maturity of dated securities issued by the Govt. declined to 14.72 yrs from 16.90 yrs in 2005-06.

In the secondary market, G-Sec yield movement was extremely volatile during the year. There was considerable firming up of yields initially due to sustained credit demand, monetary policy tightening in the US and other economies, high crude oil prices and repo/reverse repo rate hikes in the domestic economy. Due to these adverse market conditions, yields on the 10-year paper reached an intra-year peak of 8.43% in July '06, rising by 91 bps over end-March 2006. Subsequently, yields softened on the back of US Fed's decision to keep the Fed funds rate unchanged in the August FOMC meet, easing of crude oil prices and increased demand for gilts from banks to meet their SLR requirements. The 10-year yield reached a low of 7.37% in Nov '06. Thereafter, yields kept firming up on the back of central bank's monetary tightening measures through CRR and Repo rate hikes. The 10-year yield ended 2006-07 at 7.94%, 42 bps higher than previous year's level of 7.52%. The yield curve flattened during the year with the spread between 10-yr and 1-yr papers narrowing down to 42 bps at end-March 2007 from 98 bps at end-March 2006. The spread between 30-yr and 10-yr papers, however, widened to 37 bps at end-March 2007 from 30 bps at end-March 2006.

